RIO TINTO NEW ZEALAND RETIREMENT FUND NEWSLETTER APRIL 2015

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INVESTMENT UPDATE:
Investment markets maintain a generally positive tone

Offshore, plummeting oil prices – which economically can be viewed as both positive and negative – and the European Central Bank's huge asset-purchasing programme have provided the main talking points in the opening months of the calendar year. Investors are getting plenty of confidence out of the US share market's six-year bull run, which is receiving strong backing from the American economic recovery.

At home, the New Zealand economy continues to perform well and this is certainly being reflected in the local share market. Construction activity, especially in Auckland and Canterbury, is offsetting the drop in commodity (mainly dairy) prices experienced over the past year. Interest rate increases are looking increasingly doubtful in the near future, with some commentators even suggesting a drop in rates by the Reserve Bank is more likely.

CHANGES TO FIRST HOME FUNDING

Considering using your locked-in account in the Fund to help buy your first home? You'll be excited by an important legislative change coming into effect from 1 April.

If you are an eligible first home buyer applying for a first home purchase withdrawal, from that date you will be able to access the full value of any annual member tax credits you have accumulated in your locked-in account. Until now, such withdrawals have been restricted to your personal and employer contributions along with any investment returns. In effect, you can now withdraw all your locked-in savings.

The maximum annual member tax credit is currently $521, and to receive that amount you must have been contributing at least $1,042 each year. If you have been doing so for three years (the minimum time you must have contributed on a locked-in basis to either the Fund or a KiwiSaver scheme to be eligible for a withdrawal), that's an extra $1,563 available towards your new home. For those who have been contributing for longer, you'll have even more savings available.

Remember, however, that there are other eligibility rules applying to first home withdrawals. To check whether you are entitled to access your savings, see our frequently asked questions article at **realsuper.superfacts.co.nz.**

HomeStart Grant

Other major changes being introduced include a doubling of the first home subsidy if you are buying or building a 'new' home and an increase in the house price cap for eligible homes. This facility will be known as the HomeStart Grant, and replaces the First Home Deposit Subsidy.

The HomeStart Grant is administered by Housing New Zealand, not the Fund, so for more details, you will need to go to the **Housing New Zealand website**.

GETTING CLOSE TO AGE 65?

From a superannuation perspective, reaching age 65 is a very important date. It means, of course, that you will start receiving Government Super, and get your SuperGold Card, which is great. But also, well before then, you should have worked out what you want to do about your membership of the Fund and the benefits you have accumulated.

The following provides you with an introductory guide to your options once you reach 65. The accompanying fact sheet – which is also available on the Fund website – contains more detailed information about these options, who to contact and which forms you need to complete.

Please note that age 65 and your Lock-in date[1] may not necessarily be the same. However, for the purposes of this article, we have assumed that they are, which means that references to your full benefit entitlement include any locked-in benefits.

Leaving service

You may be considering retiring once you reach age 65. In this case, you can either:

- leave the Fund and withdraw your full benefit entitlement; or
- retain your balances in the Fund (although you will not be able to make any further contributions).

Remaining in service

If you decide to remain in service, you can:

- continue as a member of the Fund, with both your and your employer contribution rates (if applicable) staying the same. If you are an unsubsidised member, your employer's contribution on your behalf to your locked-in account will continue until you reach your Lock-in date;
- continue your membership, but stop contributing, in which case your employer's contributions will continue at a reduced rate (provided you are a subsidised member); or
- leave the Fund and receive your benefit entitlement in full.

Insurance benefits

All insurance benefits cease once you reach age 65, whether or not you remain in service. However, the one times salary benefit is still payable if you die or become totally disabled.

[1]The later of the date you reach age 65 or complete five years' membership of a KiwiSaver scheme and/or (on a locked-in basis) complying superannuation fund.

THE BEFORE AND AFTER OF RETIREMENT DAY

George Foreman, former world boxing champion and healthy eating entrepreneur, once said "The question isn't at what age I want to retire, it's at what income." In other words, to work out how much you need to save before you retire, you should have a solid understanding of what retirement is likely to cost. That can be a challenging prospect and there will be additional expenses and unforeseen costs you may not have even considered. That's not surprising – a survey last year revealed that 42% of New Zealanders don't know how much they need to save for their retirement.

Jumping online is a quick and easy way to help you along the way to predicting your financial future. Planning tools such as those available on the Retirement Commission's **Sorted** website allow you to estimate how much you may have in retirement, and what you need to do to ensure you can afford your desired retirement lifestyle.

Talking with an appropriately qualified financial adviser can also be a real help in getting the financial aspects of your retirement plans in place.

The big day arrives!

It will probably take you many years to reach your retirement savings goal. But what happens when the day arrives and you suddenly see all that money sitting in your bank account? Until then, it had been pretty-well out of reach in the Fund, getting ready to help you through your retirement years. But now all that cash is right there, accessible and ready to spend!

Spoiling yourself a little bit with a Pacific cruise or some other special treat isn't unreasonable when celebrating leaving the workforce. But remember, saving for retirement is all about guaranteeing an income that allows you to live the lifestyle you want, for as long as you need it to. It's vital, therefore, to avoid looking at your benefit as a lump sum.

Viewing it as a sudden, accessible pot of gold, rather than as a regular long-term income, means there is a real likelihood of your hard-saved cash not lasting the distance. Don't be tempted to get carried away – the money has to last quite a few years, probably 20 or more.

... after the big day

So now you have to decide how best to invest your savings to achieve a regular long-term income stream. This is an important decision which could impact on your enjoyment of your retirement years. Statistics show that a woman currently aged 65 can expect to live for another 25 years, while a man of the same age can expect to live for another 21 years.

With these figures in mind you should consider whether your investment strategy should include longer-term growth assets such as shares, as well as income assets such as cash and fixed interest to meet your more immediate needs.

THE FINANCIAL MARKETS CONDUCT ACT

The Financial Markets Conduct Act (FMC Act), as it affects superannuation schemes, came into effect from 1 December 2014. This new legislation governs how financial products – including superannuation plans – are created, promoted and sold, and the ongoing responsibilities of those who offer, deal and trade them. It has been described as a long-term framework for the regulation of New Zealand's financial markets.

Though important, many of the changes being introduced because of the Act will occur 'behind the scenes' and as such won't be too obvious to Fund members. However, one major transformation, which relates to client communication, will see the replacement of the Fund's current investment statement with a new document known as a product disclosure statement (PDS). Aimed to help investment decision-making by retail investors (such as existing and prospective Fund members), the PDS will replace a document that is quite long and is required by law to include a lot of information that can be difficult to understand.

Replacement of the existing investment statement by the PDS must have occurred by December next year.

One of the changes required by the Act is that, in due course, the Trustees of the Fund will need to include a duly licensed independent person. The Trustees are pleased to announce that in anticipation of this requirement Tim McGuinness will be joining the Trustees as an independent trustee of the Fund from May of this year in place of one of the Company appointed trustees. Tim is a very experienced professional trustee who holds a licence to act as the independent trustee of a restricted scheme such as the Fund.

A useful source of further information about the FMC Act is the **Guide to the Financial Markets Conduct Act**.

FUND SURVEY RESULTS

There was a pleasing response to the Fund survey undertaken in early December. Our thanks to those members who took the time to reply – there were a number of helpful suggestions made, some of which will be used to improve the next annual report and benefit statements.